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SUBJECT: JAPAN LAUNCHES NEW COUNTRY ASSISTANCE PROGRAM FOR VIETNAM

1. (U) SUMMARY. Japan used the launch of its new Country Assistance Program to raise concerns about a variety of issues related to Vietnam's economic and political reform process, at least in principle including human rights. The new program was also touted as a model because of the increased involvement of the GVN in the planning process. Despite Japanese claims, Embassy suspects Japan will continue its emphasis on large infrastructure projects. END SUMMARY.

New twists to the assistance program  
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2. (U) On June 2, the Embassy of Japan launched its new Country Assistance Program (CAP) for Vietnam featuring several changes from the previous CAP. Chief among them, claimed Minister Mitsuru Kitano, would be a shift from an emphasis on infrastructure development to projects related to promoting economic growth, poverty reduction, and institutional reform. The new CAP was also formulated in Vietnam with greater input from the GVN. Kitano also noted the need to review developments in several areas of political and economic reform, including human rights and ethnic minority issues, as part of the ongoing dialogue between the two governments. In addition to linking Official Development Assistance (ODA) disbursements to the reform process, the GOJ also emphasized the importance of Vietnam's ability to absorb and disburse aid in a timely manner as a factor in determining the size of ODA contributions. Despite the new linkages and concerns about the reform process, Japan remains committed to maintaining its high level of ODA to Vietnam. The level of ODA pledged for 2004, 846 million USD, remains the same as the level for 2003 despite cutbacks in Japan's overall aid budget.

3. (SBU) In a subsequent meeting between political officers from the U.S. and Japanese Embassies, however, the Japanese indicated that human rights would not become a major consideration in Japan's decisions on assistance for Vietnam, despite the language in the CAP suggesting otherwise.

4. (U) The launch of the new CAP was scheduled over a month after its approval, perhaps to create momentum in advance of Prime Minister Phan Van Khai's visit to Japan in order to attend the Tenth International Conference on the Future of Asia from 2 - 5 June. The CAP launch also aided Japan, Vietnam's largest ODA donor, in steering discussions at the Vietnam Business Forum in Hanoi on 14 June and the Mid-year Consultative Group (CG) Meeting of Donors in Vinh 15 - 17 June. At the CG meeting, the Japanese, with a strong endorsement from the GVN, promoted an increased role for the GVN in harmonization of development assistance.

Latest priorities  
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5. (U) In a similar effort to foster a greater sense of ownership by the GVN, Japan's CAP is based on the three development priorities identified by the GVN as part of its Comprehensive Poverty Reduction and Growth Strategy: Promotion of Economic Growth, Poverty Reduction, and Institutional Reform.

6. (U) The main focus of the growth promotion program will be: a) improving the investment climate; b) developing private sector and small and medium-sized enterprises; c) developing economic infrastructure; d) developing human resources; and e) implementing various economic reforms such as SOE reform. In addition to infrastructure projects in the transportation and energy (power generation) sector, the new CAP will incorporate more projects focused on the IT and telecommunications sector, specifically assistance for the maintenance and management of high-speed communications networks.

7. (U) The poverty reduction program has five main areas: education, health care, rural development, urban development, and the environment. The CAP will support reform to higher education as well as improvements in the quality of primary education. Other areas of interest in the education sector will be efforts to reduce the number of

schools operating two and three shifts and efforts to reduce the high drop-out rate. The CAP still promotes large infrastructure developments as part of its rural and urban development projects. The focus of the CAP's rural development efforts will involve irrigation projects. The GOJ has also identified flood prevention as another serious issue affecting rural development. Inadequate waste treatment and disposal is another issue that the GOJ has identified as placing major constraints on urban development.

18. (U) The CAP identifies institutional reform as vital to the support and sustainability of progress made in the other two areas. The primary focus will be on the development of Vietnam's legal framework and administrative reform such as civil service and fiscal reform. With regard to improving the legal system, the primary focus will be on the following areas: civil litigation laws that will provide for the transition to a market-oriented economy; judicial reform with a focus on ensuring transparency of the judicial system; human resource development through strengthening the function of institutions for training legal professionals; and improvement of availability of legal information needed for judicial reform. In the area of administrative reform, the focus will be on public expenditure management, to include tax collection and the taxation system, as well as enhancing the link between policies and the allocation of financial resources.

19. (U) COMMENT. We are not convinced that the GOJ will truly shift much emphasis away from infrastructure projects, especially those benefiting Japanese construction firms and equipment. In fact, the new CAP may signal a greater emphasis placed on promoting wider penetration of the IT sector by Japanese firms, especially since the CAP highlights Japan's willingness to fund the maintenance and management of high-speed communications networks as well as developing the human resources necessary to maintain digital communications systems.

BOARDMAN